

Independent Rates Oversight Committee – IROC
September 8, 2008

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1. Roll Call

Chairperson Billings called the meeting to order at 10:00 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair	X	
Larry Clemens	X	
Linda Cocking	X	
Jack Kubota	X	
Barry Newman	X	
Jim Peugh	X	
Charles Richardson	X	
Irene Stallard-Rodriguez		X
Todd Webster <i>arrived at 10:03</i>	X	
Gail Welch	X	
ExOfficios		
Augie Caires, Alternate (for Scott Tulloch)	X	
Yen Tu		X

2. Non-Agenda Public Comment

There was no non-agenda public comment.

3. Approval of Minutes from 7/14/08 and 8/21/08

Chairperson Billings called for a motion to approve the minutes for both meeting dates. Mr. Newman moved, Mr. Richardson seconded, with Committee Member Stallard-Rodriguez absent and one abstention, the minutes for both meetings were unanimously approved.

4. Chair Updates

Chairperson Billings thanked all participants in the discussion on the Performance Score Cards, also encourages those who have not weighed in, to do so as soon as possible. He expressed the importance of this, which will give the public an opportunity to judge IROC.

5. City Staff Updates

➤ *Water Department*

Alex Ruiz mentioned a couple of items going to the Natural Resources and Culture Committee on Wednesday, which will have presentations to IROC soon. He mentioned an item going to Council today, which will be asking for Council approval to notice Prop. 218 for both the CWA Pass through and the IPR Demonstration Project rate increases, discussed previously at IROC. The actual hearing, assuming

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there are not protests from the majority of the property owners, for the Council to consider the item at its November 17, 2008 Council Meeting is at 2:00 pm. He asked that the Committee members put this on their calendars.

➤ *Metropolitan Wastewater Department*

Bob Ferrier stated they remain focused on operational issues, spills remain down, and things are going well. He said the tentative decision expected this month from the EPA is not expected until November. The request was submitted in a timely fashion, but the EPA is still analyzing the data.

6. **Perspective on IROC's Roles and Responsibilities**

Presenter, Councilmember-Elect DeMaio, was not in attendance at the time this item was called, therefore it followed Item 7. Councilmember-Elect De Maio thanked the IROC for their volunteer service, and expressed his appreciation for time spent serving on behalf of San Diego taxpayers, making sure the fees are getting put to good use for water and sewer services in the city. He feels very strongly about the importance of providing ratepayers with protection, and education. He expressed his concerns of IROC losing focus, and hopes for more effort validating the dollars the departments are currently receiving, are going to intended projects. He spoke about the problems in the past, and feels IROC needs to do more to monitor this, as well as inform the public about it. He stated the IROC agenda items in the past are important, but should focus more on the financial and performance oversight, which are the main areas IROC is looked upon for oversight. He added the current structure and current use of fees should be looked at in more detail. He expressed the importance of starting the second year of IROC off with a laser like focus on reviewing rate charges and uses, and making sure the projects in the initial rate case that created IROC, are actually being done.

Secondly, he addressed what he thinks IROC should do in terms of performance and financial audits. He feels the review of the City's hiring of an auditor and review of the methodology behind the financial part is important. He gave ideas such as hiring an expert to review the work plan and offer advise independently, as to whether appropriate financial management methodologies are being used. In relation to the performance audit, he offered the idea of identifying two functions from each department, and do a performance audit on the two issues. He stated he is open to increasing the allocation to IROC to conduct its performance audit, as long as the methodology or projects being funded for the performance audits have the potential of saving more money than the actual performance audit incurred.

He closed with stressing the importance of educating the public on the cost of operating in the water and wastewater departments and recognizes there will be policy issues beyond our control that will drive increased expenditures in the water and wastewater area. Also, making sure an adequate job is done in regard to operation and maintenance of our current system, which can eventually have multi billion dollars worth of liabilities if we use the current approach to water and wastewater. He then mentioned there are

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many alternative methods for service delivery to look into, as well as checking into what the City's fringe rate is to operate their departments. In regard to the pension system, he feels the cost of operating can be cut down by looking at other alternatives, given the water and wastewater are enterprise funded. He gave an example of the last rate case, which included increased payments for fringe benefits. He feels it is important not to accept the current way of doing business and the current cost structure, but to look at alternatives that may save money, in advance of a rate case that would go to Mayor and Council. He offered to meet the IROC individually at any time.

Mr. Peugh asked for sources of information. Councilmember-Elect DeMaio offered ideas such as asking questions of staff, inviting outside private and public sectors to meet with such as other cities, the National Center for Public Private Partnership, American Waterworks, etc. and gave examples of benefits from doing so. He then offered to have individuals from the Federal Government come and talk about their contracting lessons learned from the latest advisory commission, convened two years ago looking at the Federal Government's contracting policies, at IROC's request. He added he really wants to see IROC succeed.

7. Proposal to Sell Surplus Wastewater Treatment Capacity

Bob Ferrier gave a summary of the proposal, explaining that several Participating Agencies (PA's) have expressed a need for additional capacity and have requested that the City consider selling a portion of its excess capacity. He pointed out that Raftelis Financial Consultants, Inc. was commissioned by the JPA in conjunction with the City to evaluate various assessment methodologies and establish a range of values for treatment capacity. The City is prepared to enter into discussions with interested parties for the purchase of such capacity.

Mr. Richardson asked if there would be a risk of loss of flexibility in the system, making this commitment. Mr. Ferrier said no, there was sufficient excess capacity to allow a sale of some portion of the excess, and that in any case the Department would not recommend a sale that would adversely impact the City. Mr. Kabota asked if this would be leased in a way that if it is needed back in the future, would it be obtainable? Mr. Ferrier stated the PA's are contemplating a "pooled capacity" situation where an entity has more capacity than they are currently using, and would be able to lease it back and forth between them. An agreement like this would need to be approved by the City under the terms of the Regional Wastewater Disposal Agreement. He added there does not appear to be as much interest in the leasing option, and existing provisions in the Agreement appear to make leasing problematic. Chairperson Billings asked for information on potential advantages of selling an equity stake in the system, in the event that upgrades are necessary, and if the costs would be spread amongst owners. Mr. Ferrier clarified this and stated that the PA's pay on a per-gallon basis, according to their use, however, when capital improvements are made to the Metro System, they pay on the percentage of capacity they own. Also, everything is established by current rates of percentage of ownership and the treatment cost is on a per-gallon basis.

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Chairperson Billings asked for a motion to approve in concept exploring the sale or release of excess capacity and understanding that any specific transaction will in fact be brought back to the IROC for specific approval. Mr. Newman moved, several members seconded, with Committee Member Stallard-Rodriguez absent this item was approved unanimously.

8. **Natural Resources Conservation Service Grant for Dulzura Conduit Concrete Covers**

Jesus Meda, Operations and Engineering Manager, Operations Division of the Water Department, gave a presentation requesting funds to complete the Dulzura Conduit Concrete Covers project. He explained this project would provide protective measures for a conveyance system utilized by the Water Department to move water from one reservoir to another. The proposed work has an estimated cost is approximately \$700K, which the City will fund the entire cost upfront and will be reimbursed by NRCS up to 83% at the projects completion, where it would be transferred back into the DRES Reserve Account. He included a copy of the 1472 and Executive Summary Sheet in the package. Mr. Meda briefed the IROC on the wildfires endured October, 2007 and as a result of this, federal funds became available. Under direction of the Mayor, the City immediately addressed the issues of slope failures and erosion due to this potentially threatening the safety of citizens and property. The Consultant conducted assessments and recommended mitigation measures for the most critical sites, including the Dulzura Conduit. To implement the measures, the Water Department applied to the National Resources Conservation Services (NRCS) for funding under the Emergency Watershed Protection Program.

He stated funding is questionable after September for the project which basically consists of installing approximately 1300 linear feet of concrete covers at 19 critical locations identified. NRCS will fund the project if an agreement is entered into by September 30, 2008. Mr. Richardson asked if this was a critical expenditure in order to protect the ability to use this aquaduct. Mr. Meda stated yes it is. Mr. Kubota asked if it would ever be considered to take care of the entire reach, rather than sections, Mr. Meda stated there will be a CIP project in the future, which will look at the entire stretch. This is a smaller scope of that project that is being moved forward as a result of the funding available. There are still other risk areas, but these 19 critical locations are a priority. Mr. Newman asked whether or not there was some inefficiencies in not doing a greater portion of the job at the same time the rest is being complete. Mr. Meda said in order to push the CIP up, there would be some financial impact. We are currently trying to maximize the grant that is available now, to perform this work.

Chairperson Billings asked for a motion to approve the use of funds for this project, Mr. Newman moved, Mr. Richardson seconded, with Committee Member Stallard-Rodriguez absent this item was approved unanimously.

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9. **Water Facilities Master Plan**

Marsi Steirer gave some background to this item, and is proposing to move forward and hire an engineering consulting firm to provide the department with a Water Facilities Master Plan (WFMP) for the next 20 years. She introduced Vien Hong, Associate Civil Engineer, who gave a presentation on the project and scope of work, seeking support for the projects and funding for the consultant agreement with Camp, Dresser & McKee, Inc. (CDM), who was selected through a competitive process to provide the complete WFMP. The WFMP will produce critical information regarding prioritized water infrastructure needs and will be the basis for developing the next CIP (2012-2032). This will include both internal and external drivers, and all identified projects will be prioritized and scheduled in a manner consistent with Council Policy 800-14 on Prioritizing Capital Improvement Projects.

Mr. Hong is seeking the support to use \$1,250,000 from CIP 73-347.1 to fund the consultant agreement with CDM. The estimated completion of this project is 2010, and these funds are available for this purpose. Ms. Steirer added the city staff will be working closely with the consultants as well as working with water modeling. This will build upon the work City staff has prepared, and come up with a document that can be brought back to the IROC. Mr. Richardson inquired about CDM's experience in water facility master plan type work. Ms. Steirer introduced Hooman Partow, CIP Program Manager for the Water Department. He stated they presented 3 master plans at the interview, and they are known nationally for their work. They have also done several projects for the City in the past. Ms. Steirer gave several examples and answered questions. Mr. Newman and Mr. Kubota commented on the importance of the IROC possibly being notified of future RFPs, and perhaps supplied a copy of the scope of work before certain items are brought before the IROC. Chairperson Billings called for a motion to move forward with this contract, and to supply the IROC with information regarding future RFP's of interest to the IROC. Mr. Kubota moved, Mr. Richardson seconded, with Committee Member Stallard-Rodriguez absent this item was approved unanimously.

10. **Pilot Production Wells Project**

Ms. Steirer gave a description of the project, and a portion of the presentation. She stated planning document, the Long Range Water Resources Plan, was developed by a citizens' advisory board. The Long Range Water Resources Plan was adopted by the City Council in 2002, where the goals associated have been worked toward since. This project will help determine a site's feasibility for development of a full scale project, and is a component of the Water Department's Groundwater Asset Development Program. She went over current water supplies, water supply goals and the City's Long Range Water Resources Plan groundwater objectives. She introduced Greg Cross, Project Manager, who finished the presentation. He gave an overview of the groundwater basins, pointing out existing monitoring wells throughout the City and one existing pilot production well in the San Vicente area. He reviewed the existing projects as well as the Groundwater

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Asset Development Program which includes a 3-phase approach to developing groundwater production sites. He explained the phases. Mr. Cross stated with this project, they want to evaluate up to 5 sites, conduct hydrogeological tests to determine feasibility of full-scale projects and develop preliminary design documents, conducting environmental studies using the data. He said this project involves installation of wells, well pumps, and conveyance systems at locations that overlay the City's groundwater basins. The requested action is for IROC to support the use of \$1.9M from the FY09 Budget to fund CIP 75-932.9, Groundwater Pilot Production Wells which has a schedule of fiscal years 2009-2011.

Mr. Richardson offered his suggestion of urging the exploration of research for ground water on a priority basis. He wants to see brought before the IROC, a proposal to expand the looking for ground water, or at least identify alternatives if it is not found. Chairperson Billings mentioned there are ways to access stored ground water, where the basin is not in San Diego, in the event we are geologically challenged. Mr. Newman moved to approve the project, Mr. Richardson seconded with Committee Member Stallard-Rodriguez absent this item was approved unanimously.

11. South Mission Valley Trunk Sewer

Wendy Gamboa, Senior Engineer of Engineering & Capital Projects, spoke and requested the transfer of funds into the South Mission Valley Trunk Sewer Project. She have a summary of the project. She mentioned this project is challenging which includes tunneling and freeway crossings. She stated the purpose of the project is to replace deteriorated sewer mains, bringing them to current design standards, increase capacity and is listed in the EPA mandate to be completed by October 2011. The transfer of funds is necessary because the design was 100% complete in 2004 and shelved due to lack of funding and reactivated in 2008. During this time the construction and engineering costs escalated more than anticipated. Funds have been identified in the annual allocation for sewer main replacements that can be transferred to this project with no impact to the sewer main replacement program. She then requested the approval for the transfer.

Mr. Kubota asked if the design includes potential overflows monitoring. Ms. Gamboa stated flow calculations are done to eliminate any possible overflows. She added the contractor is responsible for monitoring the sewer system during construction to ensure no overflows occur; once it is operational she believes the MWWDD Operations & Maintenance Department does have meters set up in various areas throughout the City that keep track of the flows. Mr. Webster asked if any escalator costs were built into the 2004 proposal to cover any of this project? She stated no, but when the budget was estimated in 2007 for FY09, there was added costs for escalation to that estimate, but only at 4% rather than the actual 10% incurred. Mr. Richardson made a motion to approve, Mr. Newman seconded with Committee Member Stallard-Rodriguez absent this item was approved unanimously.

12. Update on Drought Response Program

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Mr. Ruiz let the IROC know at the NR&C Committee this week, will be giving a couple of informational briefings regarding the ongoing success of the City both as an Agency and as Citywide with regard to the conservation efforts that have been underway as a result of CWA's 20-gallon challenge and their goal of 10% reduction as a region. He then asked Mr. Bresnahan mentioned the tracking of billings for water since October 2007 through July of 2008 and compared that with a similar time period of prior years. This time period was chosen due to the fact that CWA has indicated from their perspective for that period of time, there has been a 5% reduction in overall use. He pointed out from the perspective of the City of San Diego, similar reductions are seen. As a City, we are down 8.5%, which is somewhat more conserving than the overall population of the city of San Diego.

Mr. Ruiz added the update on the development of the City's modified drought ordinance going before the NR&C. There is an Emergency Water Regulations on the books now that was developed in the late 80's – early 90's. CWA pushed out a model ordinance that all agencies should consider as of mid August, where 10 of the 23 agencies have adopted. No agency has developed any drought allocations for their customer as of yet, the City has been working to develop a revised ordinance to take to the IROC and the Mayor and Council, that would address a number of complicated elements to give individuals fair credit for the conservation they have taken to date. He mentioned one element to work through is how to enforce, regulate and how to ensure as we move forward, there are sufficient revenues to cover the reduction targets that will be in place as a result of that ordinance. This will come forward in the October timeframe.

13. Subcommittee Updates

a. Finance

Mr. Richardson referred to his meeting notes, included in the package. He noted two significant items were a listing of unfunded department CIP projects and also a summary of re-occurring audits which was presented.

b. Environmental & Technical

Due to Mr. Peugh's absence at the last E&T meeting, Mr. Webster reported that in the last meeting, Alan Langworthy gave an update in terms of the delay with the decision by the EPA regarding the Secondary Waiver. Point of interest was the EPA will provide a letter which will give a decision and a technical justification, and also set when a public hearing will occur which may be in the Feb/March timeframe of 2009. Also, will be the draft permit which may have conditions the City will have to abide by. Another item discussed was future issues the Subcommittee would like to bring to the IROC's attention such as security issues with the Water and Wastewater Treatment Facilities in the City. Some presentations are forthcoming, and will share with the full IROC at that time.

c. Public Outreach, Education & Customer Service

Mr. Clemens went over notes from his June meeting, included in the package. He noted they looked at the UCAN piece to be included in the bi-monthly billing. He said they were not satisfied with the tenor, and suggested changes. It was noted there

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would be an approximated \$35,000 additional cost for printing and posted as a result of putting in the Prop. 218 notices as well. In summary, they had not heard back from the Mayors office as to any further update on that point. Also during the meeting, was a presentation from the CWA, having to do with their public conservation information campaign getting the word out. This seems like an exceptionally good program, and will only get better. Mr. Peugh went over the last July meeting notes which included discussion of the “Report Card” and suggestions that could be made. Additionally, discussion took place in regard to the need of further introduction of what IROC is, what has been accomplished and what the future holds. He suggested perhaps a newsletter from IROC. This will be discussed soon.

14. Proposed Agenda Items for Next IROC Meeting of Oct. 13, 2008

None at this time, IROC can forward via email to Chairperson Billings.

15. IROC Members’ Comments

Mr. Newman asked the Chair to consider moving up in the Agenda, the Committee Reports so a fuller dialog can be reached. Chairperson Billings concurred and asked that this item be moved on all future agendas, to the last item prior to the break. Secondly, he added for Item 8 of this Agenda, that the question “can an agreement be finalized by September 30, 2008” was a critical piece to the presentation and it was not addressed. He also added he would have preferred to see an assessment of what total costs of covering as necessary Dulzura Conduit and what the added costs would be on a project done in part now, and in part later. He understands this is to maximize the government contribution to the effort, but he would like to understand the inefficiencies that were going to result from that by doing it in pieces. Mr. Ruiz stated he will follow up at a subsequent meeting to address these requests. He stated he has asked staff to give presentations stating the most crucial information, in order to meet the time allocations of the items per meeting. He noted he would be glad to have staff give more in depth presentations when time is allowed. He also recommended the IROC let his staff know when there are items not necessary to be heard. Chairperson Billings suggested having the items go to the designated Subcommittee first, then have the Subcommittee report to IROC recommend or not recommend.

Mr. Peugh asked again, for a list of projects not on the rate case, but do need to be completed. Ernie Linares noted that the list was prepared and was provided to the Finance Subcommittee, he apologized and will get it out to all IROC members immediately.

Adjournment of IROC

At 12:08 Chairperson Billings called for a motion to adjourn, Mr. Newman moved and Mr. Peugh seconded, with member Stallard-Rodriguez absent, unanimously the meeting was adjourned.